developing working solutions through partnerships

NRI On-Line Inc.

1997 ANNUAL REPORT

…TA ARCHIVAL HIGH-DENSITY DATA STORAGE HIGH-SPEED ON-LINE DATA RETRIEVAL AND TRANSFER SERVICE DATABASE MANAGEMENT SERVICE

Corporate Overview

NRI has combined the enabling technologies of high-density/high-speed data storage media, high-capacity computing systems and high-speed fibre optic communication links with its open structure software. This technological combination enables the Company to provide data archival, high-density data storage and rapid, secure on-line data delivery to clients requiring frequent and timely access to large data volumes.

NRI's initial target market and operations pertain to Canadian oil and gas seismic data. The Company's services have reduced seismic data warehouses to bookshelves, greatly reducing storage costs, and have provided customers with a competitive advantage by allowing the retrieval or transfer of seismic data in seconds versus days. By partnering with complementary service providers, we are continually increasing the value of these services through convenient access, integration with other data sources, and desired reformatting.

Upon achieving a solid base in this initial market, NRI plans to pursue the many other markets where its services will provide organizations with a similar competitive advantage.

NRI's shares and warrants are listed on the Alberta Stock Exchange under the trading symbol **NDA**.

Table of Contents

Financial Highlights 1

Message to Shareholders 2

Operations Overview

Providing Technological Solutions 4

Partnering for Success 6

Management's Discussion and Analysis

Working to Achieve Results 7

Statement of Management's Responsibilities 10

Auditors' Report to Shareholders 10

Financial Statements and Notes 11

Corporate Information 19

Glossary of Technical Terms 20

Annual General Meeting

The Annual Meeting of Shareholders will take place on May 8, 1998, at 3:30 p.m. (Calgary Time) in the South Franklin Atrium, Calgary, Alberta. All shareholders are invited to attend.

1997 Financial Highlights

	Year Ended October 31, 1997	Year Ended October 31, 1996
Operations		
Sales	**$ 1,030,034**	$ 1,420,010
Gross margin *(per cent of sales)*	**66.9%**	72.3%
Net loss	**$ (808,422)**	$ (606,876)
per share	**$ (0.21)**	$ (0.18)
Expenses		
Software development costs	**$ 274,241**	$ 351,463
Capital expenditures	**$ 123,839**	$ 111,303
Financial Position		
Total assets	**$ 1,475,105**	$ 1,299,183
Number of shares outstanding	**5,032,717**	3,423,000
fully diluted*	**12,759,779**	

** Includes all shares, warrants, options and convertible debentures at year-end and issued pursuant to the public offering.*

DATA ARCHIVAL HIGH-DENSITY DATA STORAGE HIGH-SPEED ON-LINE DATA RETRIEVAL AND TRANSFER SERVICE DATABASE MANAGEMENT SERVICE

Message To Shareholders

On behalf of the Board of Directors, I am pleased to report NRI's operational and financial results in this, our first Annual Report. I would also like to take this opportunity to welcome our new shareholders and to provide an overview of NRI's activities and objectives.

NRI IPO Raises Over Two Million Dollars

NRI commenced operations in Calgary in November 1994, utilizing the most current technology available to provide its clients with immediate, computerized retrieval of information which, prior to NRI, was both difficult and time-consuming. In this capacity, NRI earned the reputation of being a pioneer in seismic data management technology. In November 1997, NRI successfully completed its initial public offering of shares for net proceeds of just under $2.2 million. Trading of NRI's common shares and warrants commenced on the Alberta Stock Exchange on December 8, 1997 under the trading symbol **NDA**.

A Year of Change

The past year was characterized by changes both in management and in market scope. We first recruited Brett Kondruk, an experienced marketing executive, to the position of Executive Vice President, Marketing. As General Manager of the Company, he has played a lead role in identifying key complementary service providers and initiating strategic integration projects to add greater value to our services. More recently, Ralph Terner, a technology professional, came to NRI as Vice President, Operations.

During 1997, NRI began diversifying into new markets. Negotiations with CMC Carefactor concerning the significant market opportunities for on-line, off-site corporate data back-up and recovery services culminated in early 1998 with a strategic investment in InterBack Restore Ltd., a joint venture with CMC Carefactor.

NRI also broadened its range of services by increasing its capabilities regarding additional storage media and by developing complementary services such as data replication, or tape copying, and remote disc processing where NRI's equipment is used to read, store and transfer data on-line to processors for direct input into their applications. In a related development, several seismic data processors obtained fibre optic links to NRI and more have announced their intention to do so, reflecting the momentum now driving the seismic data industry toward an on-line environment.

These diversification initiatives resulted in the generation of 15 per cent of NRI's 1997 revenue.

Financial

Revenues for 1997 decreased 27 per cent compared to the prior year because of delays in securing archival business. This resulted in a loss of $0.21 per share for 1997, compared to a loss of $0.18 per share in 1996. The data archival, high-density storage and rapid on-line delivery service sectors are complex and highly technical requiring a significant amount of human and physical capital for their provision, even on a small scale. Consequently, despite the healthy profit margins inherent in these services, a base-line volume of business is required to absorb costs and achieve profitability. NRI did not achieve this volume in 1997; however, the Company recognizes the need to focus on increasing its business volume above current levels.

Compounding this problem, several seismic data management projects which were expected to begin in 1997 were delayed. Most of these are now expected to proceed in 1998.

Customers Recognize Value

Despite the financial results achieved in 1997, NRI is encouraged by its successes in 1997:

- **raising over two million dollars through the Company's initial public offering**
- **completing development of the Company's core service offerings**
- **building the capability to properly service NRI's market**

What is most encouraging is the value NRI's customers see in the services the Company provides. NRI's archival services can dramatically reduce storage costs, and its on-line delivery offers both significant cost savings and the competitive advantage of rapid access to information. The healthy gross margins provided by NRI's services will translate into substantial profits as business volume increases.

Creating Opportunities for 1998

Looking ahead, the Company's marketing efforts have identified future business opportunities in current markets that could more than double NRI's sales and help the Company achieve profitability. NRI has also identified potential for its services in markets outside the seismic industry. These markets include records and data management in the medical, banking, pipeline, environmental and geographical information sectors.

NRI continues to work toward adding value for its shareholders.

On behalf of Management and the Board of Directors,

Andy Crooks

Andy Crooks,

Chairman of the Board

March 6, 1998

Providing Technological Solutions

The following is an overview of the services offered by NRI. While the Company currently provides these services to Canadian oil and gas companies to assist in their management of seismic data, these services can be applied, with minor modifications, to almost any data set.

Operations

Archival

To provide on-line data services from a central repository, the data must first be archived, a process where the data is read from its existing storage medium, indexed into the NRI database management system and written to a high-density, high-speed storage medium.

To perform this archival function, NRI has developed proprietary Original Replication Imaging ("ORI") software which copies the data from the existing medium to the new medium without modification, and records an additional data layer. This additional layer contains adjustments to correct for any errors, omissions or inconsistencies discovered in the source data which, if desired, can be applied to produce a modified or improved version of the data.

In addition to the seismic data itself, related information from notes made by observers during the seismic shoot, from surveys of the area or from other sources are of value in processing or interpreting seismic data. This information is usually stored on paper, microfilm or microfiche. For reasons of cost-efficiency, NRI has chosen to outsource the digital imaging of these records to a strategic partner and, through a fibre optic connection to their facility, complete the archival to NRI's repository.

NRI recognizes the industry need for off-site storage and on-line access to geophysical project files. These files are very large and reside in the proprietary formats of interpretation and analysis application providers. NRI is partnering with these application providers to develop the capability to archive these projects in the desired format and version, and to provide on-line access and format conversion services as required. We expect to obtain these capabilities in 1998.

The delay in seismic archival projects, expected to commence in 1997, led to a significant decline in archival revenues from 1996. The Company took advantage of this reduced archival activity to modify its archival software to better target the needs of the industry and to tailor certain features at the request of managers developing large archival projects. During 1997, NRI generated the bulk of its archival revenue from the completion of the Parex Partnership marine data archival project. This project commenced late in fiscal 1996 with over 85 per cent of the archival performed in fiscal 1997. Other archival revenue included completion of the test phase of an archival project for Mobil Oil Canada, ongoing archival of new data acquisitions from established customers including Talisman Energy Inc. and Fletcher Challenge Petroleum Inc., and the initial archival phase of the GECO Seismic Survey Ownership Group 1997 marine data shoot.

On-line Access, Retrieval and Transfer

NRI stores archived data at a central repository where strict security controls are exercised. Through integration with a strategic partner specializing in seismic data management and tracking applications, NRI offers access only to authorized users. Alternatively, clients preferring their existing seismic data management system or other applications are accommodated through integration with NRI's open architecture.

The Company utilizes existing fibre optic networks to allow the user to retrieve the data to their workstation, or transfer the selected data to a seismic data processor or other designated recipient.

NRI also uses fibre networks to facilitate the service of remote disc loading/processing. Data is read from either its source medium utilizing NRI equipment or from NRI's data repository and made available to a seismic data processor for transmission as required.

In 1997, several seismic data processing service providers accepted NRI's on-line method of receiving data for entry into their applications. As a result, on-line services increased significantly and this emerging trend is expected to continue as the merits of the on-line approach are recognized.

Also contributing significantly to the increase in on-line services was the introduction of the remote disc loading/processing service. The initial application for this service was the large GECO Seismic Ownership Group 1997 marine data shoot where a portion of the raw data was archived by NRI and transferred to our large disc array. There, the processor was able to retrieve this data as needed for input to its processing applications. In this manner, NRI is able to substitute its extensive inventory of equipment for that of the processor, allowing the processor to invest time and money solely in value-added services.

Data Replication

Until such time as on-line transfer of seismic data becomes the preferred method by all users in the industry, there will be a demand for data replication or copying onto traditional media for delivery by ground transport. As the repository for a client's data, NRI is often requested to perform this service when on-line delivery is not possible and has written software to perform this service onto all common seismic media.

Prior to 1997, NRI had limited capability in this area, concentrating its resources on data archival and on-line delivery services. Recognizing the opportunity to generate additional revenue during the transition to an on-line seismic data industry, NRI rapidly developed the capability to replicate data stored in its data repository. In addition, we have developed the capability to perform this service from all common source media. NRI anticipates revenue from this service will continue to grow in correlation with the NRI data repository, and will eventually decline when most seismic industry participants are functioning with on-line capability.

Corporate Data Back-up and Disaster Recovery

In fiscal 1998, NRI initiated a service in a different data management market. With a strategic joint venture partner, CMC Carefactor, NRI began to offer corporate back-up and recovery services through InterBack Restore Ltd. This service enables NRI to provide fully automated off-site back-up of client computing servers and individual employee workstations over a variety of communication links from telephone lines to fibre optic networks. Immediately following a data loss event at the client's site, data is restored by delivery over communication lines or writing to a common storage medium for physical delivery.

Partnering for Success

Some time ago, NRI recognized the importance of focusing its resources on areas of its core competency and increasing the value of its services through partnerships and strategic alliances with complementary service providers. Through effective integration, we have combined our expertise with that of others to provide our clients with the best solution to their needs. A few of these partnerships are discussed below:

West Canadian Imaging

Over 3.5 billion documents are generated every day in the United States alone. With this enormous volume, imaging services play an important role for NRI's growth in the seismic data industry and its expansion into other industries.

NRI recently partnered with West Canadian Imaging, recognizing their state-of-the-art facilities and expertise in imaging services. This partnership has enabled NRI to provide its customers with archival and on-line data services regardless of the present storage medium and without the need for investment in imaging technology.

EDM Products Inc.

Geophysical data for a traditional oil and gas company spans over 20 individual databases of private and public information. Each of these databases is dependent on large volumes of physical tapes, discs and documents. Managing this inventory of data is a business in itself. EDM Products, a Calgary-based company, has developed a highly comprehensive geophysical information inventory management system known as ITS. Several senior energy companies have recognized the benefits of this system.

By fully integrating NRI's archival and on-line delivery software with the ITS system, NRI has made the transition to an on-line environment for all ITS users a seamless process.

GeoQuest & Landmark

The exploration decision ultimately relies on the interpretation and analysis of seismic data and other geophysical information by qualified geoscientists. A number of application providers, including GeoQuest and Landmark provide sophisticated interpretation and analysis tools to assist geoscientists in this process. Each of these tools requires specific data input formats and produces project files in proprietary file formats that are incompatible with other tools and possibly with other versions of the same tool.

NRI is partnering with GeoQuest and Landmark to integrate its data repository and on-line services with their analysis and interpretation applications to allow NRI to seamlessly archive and provide on-line access to large geophysical project files and to reformat previously archived data for direct input into these applications.

Excalibur-Gemini

NRI has established a direct fibre optic connection to Excalibur-Gemini, a leading provider of seismic survey information. This link allows NRI to offer all clients on-line access to both their survey information and their data resident at NRI through a single interface with NRI's data access and delivery system.

CMC Carefactor

The need for corporate back-up and recovery services has been highlighted by recent acts of terrorism, severe weather and the uncertainty surrounding the Year 2000 problem. Many businesses are now cognizant of the high cost in lost time and productivity resulting from even a small data loss event.

Our joint venture with CMC Carefactor, InterBack Restore Ltd., represents a strategic investment by NRI designed to address this market need. CMC Carefactor's expertise in disaster planning and recovery services and NRI's expertise in high-density data storage and on-line data delivery services are a natural fit.

Management's Discussion and Analysis

MD&A

Revenue

Revenue for 1997 was less than expected and 27 per cent less than that realized in 1996 due to unexpected delays in securing project archival business. Revenue from data archival was down over 40 per cent as many companies with intentions to address their seismic data management problems failed to proceed with projects in 1997. The Company used this opportunity to refine its archival and on-line capabilities to better address the specific needs of the industry and to develop partnering arrangements with other service providers to provide greater value to existing and potential customers. Also in 1997, attention was given to broadening our service offerings to capture additional revenue. Over 15 per cent of 1997 revenue was generated from these new service offerings, primarily from data replication (the copying of customer data resident in the Company's data repositories onto traditional storage media) and from remote data loading/processing (the utilization of the Company's resources to read and transfer data on-line to seismic data processors).

Gross Margin

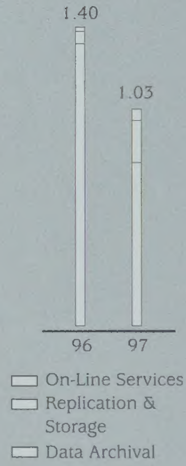
Gross margin in 1997 decreased as a percentage of sales from 72.3 per cent in 1996 to 66.9 per cent in 1997. The economies of scale in direct labour were not realized in 1997, as the reduced level of larger project archival activity resulted in a greater portion of less efficient, smaller archival jobs. Also, the introduction of data replication services, where mark-up on the media component is minimal, contributed to the reduction in the gross margin percentage.

Expenses

Expenses for 1997 were 8.3 per cent less than those incurred during 1996. A significant portion of the savings realized is attributable to reduced depreciation charges which resulted from the continuation in 1997 of a modest capital program and from the declining balance basis of depreciation for the Company's major equipment. Software development costs were also lower, reflecting the transition in 1997 from the development to the refinement stage of the Company's software and related technology. These savings were partially offset by increased costs in Operations Support and Maintenance that resulted from higher manpower and technology maintenance costs due to the increased scope of services.

Overall financing costs were slightly lower than those incurred in 1996. Interest costs pertaining to the Series II debentures, issued and subsequently converted to common shares in 1997, was more than offset by the reduction in interest charges associated with bank demand and term debt, reflecting ongoing repayments and the elimination of the costs of certain shareholder loan guarantees. Marketing and selling expenses were lower by five per cent, reflecting manpower savings from the decision to recruit and hire a marketing executive to replace more expensive marketing and sales consulting services.

Comparative Revenues
($ millions)



Results for the Year

To achieve profitability, the costs of ongoing product/service development and maintenance of the technology base require a level of business volume greater than that achieved in 1997. Consequently, the Company recorded a loss in 1997 of $0.21 per share, $200,000 more than that recorded in 1996 ($0.18 per share). Approximately 80 per cent of this loss represented software development costs and depreciation and amortization charges. Despite this loss, the Company retains a healthy gross margin percentage which will allow business volume growth to provide future profitability.

Cash Flow

In 1997, the Company generated $10,000 of cash from operating activities. Acquisition of capital assets of $124,000, capitalized costs totalling $399,000 associated with the public financing completed subsequent to year-end, a $36,000 loan to a senior executive (used by that executive to purchase Company shares), and an increase in the investment in non-cash, non-operating working capital of $14,000 created the requirement for approximately $563,000 of additional financing. Repayment of term debt obligations, in accordance with their terms, of $118,000 brought the total financing required to $681,000.

To meet this financing requirement, the Company issued $345,000 of convertible debentures that were converted to common shares during the year, and an additional $306,000 of common shares. The remaining $30,000 was financed through an increase in the Company's bank operating loan.

Liquidity and Capital Resources

In anticipation of additional equipment required to increase the efficiency and capacity of our data archival and repository facility, and to fund integration of our software with key value-added partners, the Company raised funds in the public market during 1997. This initial public offering closed after year-end on November 10, 1997 with the sale of 4,396,200 units at $0.50 per unit. Each unit consisted of one common share plus one-half share purchase warrant. Each full warrant entitles the holder to purchase one common share at the price of $0.65 prior to expiry of the warrants in May 1999.

During 1997, operating losses weakened the Company's working capital position, leading to a large deficiency at the close of fiscal 1997. Upon completion of the public offering, working capital was restored to a healthy level and bank debt was reduced. The additional leverage capacity will be used to finance future technology needs.

Risk Assessment

The initial target market of the Company and all its present services pertain to the management of seismic data in the Canadian oil and gas industry. This industry is cyclical in nature and its results are linked to world commodity prices. A significant decline in the price of these commodities could lead to the deferral of capital and operational projects including those pertaining to the services offered by NRI. Certainly the willingness of geophysical information managers to migrate to an on-line environment in a gradual manner, by targeting new data

acquisitions or specific data sets for archival and on-line services, would definitely mitigate this risk. These expenditures can be absorbed in operational budgets in an ongoing manner, avoiding the need for large project approval.

The Company has the capability to archive, store and transfer data using a broad variety of data storage media and equipment. NRI has selected a primary data storage technology which we believe provides the most cost-effective data storage and delivery solution. This technology is constantly evolving and competitive products are constantly improving. We recognize the possibility that other technologies may become more cost-effective, and for that reason we have remained flexible and open to the concept of conversion should cost factors make this necessary. At the present time, the costs of such a conversion are estimated at $250,000.

Year 2000 Computer Issue

In anticipation of potential systems problems posed by the arrival of the Year 2000, NRI has designed, written and tested all of its proprietary software to ensure no difficulties are posed by the new millennium. In addition, policies and procedures are in place to ensure that all acquired or integrated software and other technology utilizing or generating date information is similarly capable of dealing with Years 2000 through 9999.

Financial Outlook

To date, the Company has invested significant human and capital resources to develop the facility and the systems capable of delivering our value-added services. This development phase is now complete and the Company is poised to take advantage of its high-margin services. The short-term financial results of the Company are now dependent upon the portion and timing of existing opportunities the Company can secure. The Company's marketing personnel believe that sufficient opportunities are currently available for the Company to more than double sales in 1998 and thereby achieve profitability. Whether the Company reaches this milestone will depend on how soon in 1998 these opportunities can be realized.

The gross margin percentage is expected to increase as business volumes increase. The economies of scale and efficiencies of labour increase with volume and the higher margin (fully automated) on-line services will claim a larger portion of total revenues as more users conduct business in an on-line environment.

Statement of Management's Responsibilities

The accompanying financial statements of the Company and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principals. The financial statements include some amounts which are based on best estimates and projections. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management has developed and maintains appropriate systems of internal controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable information for preparation of the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through the Audit Committee, which is comprised of non-management directors. The Audit Committee meets with management and external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The financial statements have been examined by the shareholders' auditors Collins Barrow, Chartered Accountants and their report is presented separately herein

Mark Roberts
Chief Financial Officer

Auditors' Report

To the Shareholders
NRI On-Line Inc.

We have audited the balance sheets of NRI On-Line Inc. as at October 31, 1997 and 1996 and the statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 1997 and 1996 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Collins Barrow

Chartered Accountants

Calgary, Alberta
January 5, 1998

Financial

Balance Sheets

	October 31,1997	October 31,1996
ASSETS		
Current assets		
Term deposit *(note 3)*	$ 32,500	$ 32,500
Accounts receivable	122,104	139,241
Prepaid expenses	19,188	20,569
Current portion of loan receivable	3,625	-
	177,417	192,310
Capital assets *(note 4)*	826,026	1,046,873
Technology rights *(note 5)*	40,000	60,000
Loan receivable *(note 6)*	32,625	-
Deferred share issuance costs	399,037	-
	$ 1,475,105	$ 1,299,183
LIABILITIES		
Current liabilities		
Bank indebtedness *(note 7)*	$ 249,039	$ 218,674
Accounts payable and accrued liabilities	547,843	127,022
Current portion of long-term debt	214,054	134,321
Debentures *(note 9)*	100,000	100,000
	1,110,936	580,017
Long-term debt *(note 8)*	21,954	220,310
SHAREHOLDERS' EQUITY		
Share capital *(note 10)*	2,006,811	1,355,030
Deficit	(1,664,596)	(856,174)
	342,215	498,856
	$ 1,475,105	$ 1,299,183

Approved by the Board,

T.M. Barton ______, *Director*

______, *Director*

Statements of Loss and Deficit

	Year Ended October 31,1997	Year Ended October 31,1996
SALES	$ 1,030,034	$ 1,420,010
COST OF SALES		
Direct labour and outsource costs	248,797	335,682
Project equipment and supplies	91,890	57,439
	340,687	393,121
GROSS MARGIN	689,347	1,026,889
EXPENSES		
General and administrative	358,204	361,219
Interest on long-term debt	53,452	30,366
Marketing and selling	154,260	162,396
Operations support and maintenance	275,029	227,343
Other interest and bank charges	17,897	44,229
Software development costs	274,241	351,463
Depreciation and amortization	364,686	456,749
	1,497,769	1,633,765
LOSS	(808,422)	(606,876)
Deficit, beginning of year		
As previously reported	(856,174)	(283,506)
Prior period restatement *(note 11)*	-	34,208
As restated	(856,174)	(249,298)
Deficit, end of year	$ (1,664,596)	$ (856,174)
Net loss per share *(note 16)*	$ (0.21)	$ (0.18)

Statements of Changes in Financial Position

	Year Ended October 31,1997	Year Ended October 31,1996
Operating activities		
Loss	$ (808,422)	$ (606,876)
Add item not affecting cash		
Depreciation and amortization	364,686	456,749
	(443,736)	(150,127)
Decrease in non-cash working capital	453,467	65,147
Cash provided from *(used in)* operating activities	9,731	(84,980)
Financing activities		
Deferred share issuance costs	(399,037)	-
Net proceeds *(repayments)* of long-term debt	(118,623)	142,134
Issuance of common shares, net of issuance costs	306,451	126,498
Proceeds from issuance of debentures	345,330	100,000
Increase (decrease) in non-cash working capital	(7,533)	16,607
Cash provided from financing activities	126,588	385,239
Investing activities		
Acquisition of capital assets	(123,839)	(111,303)
Loan receivable	(36,250)	-
Increase in non-cash working capital	(6,595)	(328,069)
Cash used in investing activities	(166,684)	(439,372)
Cash outflow	(30,365)	(139,113)
Bank indebtedness, beginning of year	(186,174)	(47,061)
Bank indebtedness, end of year	$ (216,539)	$ (186,174)

Bank indebtedness is comprised of:

Bank indebtedness	$ (249,039)	$ (218,674)
Term deposit	32,500	32,500
	$ (216,539)	$ (186,174)

Notes to Financial Statements

October 31, 1997 and 1996

1. Nature of operations

The Company was incorporated as 619683 Alberta Ltd. under the Business Corporations Act (Alberta) on July 27, 1994. On October 17, 1994, the Company changed its name to NRI On-Line Inc. and commenced operations November 1, 1994. The Company is in the business of providing electronic archival and on-line data retrieval services.

2. Accounting policies

(a) Capital assets

Capital assets are recorded at cost and depreciated and amortized using the following methods and annual rates:

Computer equipment	30% declining balance basis
Computer software	50% straight-line basis
Furniture and office equipment	20% declining balance basis
Leasehold improvements	straight-line basis over the term of the lease
Operating equipment	20% declining balance basis

In the year of acquisition, one-half of the annual depreciation and amortization charge is recorded. A full year charge is recorded in the year of disposal

(b) Technology rights

Technology rights are recorded at cost and amortized on a straight-line basis over five years. The Company determines whether there is a permanent impairment in the value of the unamortized portion by analyzing undiscounted cash flows and estimating fair values of the related operations.

(c) Deferred share issuance costs

Costs incurred to complete the public offering (note 17) will be charged to share capital, effective November 10, 1997, being the date the public offering closed.

(d) Software development costs

Software development costs incurred to October 31, 1997 have been expensed as incurred. In future periods, if the criteria for deferral are satisfied, costs incurred in the development of software will be capitalized and amortized against the period over which related revenues are expected to be generated.

(e) Revenue recognition

Where contracts for data archival services call for billing terms other than on a "per diem" or on an "as archived" basis, the Company recognizes revenue on a percentage completion basis whereby the portion of the total contract value recognized as revenue equates to the portion of the archival services completed. All phases of these contracts were completed as at the year-end date and all revenue recognized for these phases.

(f) Measurement uncertainty

The amounts recorded for technology rights and depreciation and amortization of capital assets and technology rights are based on estimates. Depreciation and amortization are based on the estimated remaining useful lives of the capital assets and technology rights. By their nature, these estimates are subject to measurement uncertainty and may have a material impact on the financial statements of future periods.

3. Term deposit

The term deposit has been pledged as security on the bank term loan (note 8[a]).

4. Capital assets

	October 31, 1997		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Computer equipment	$ 1,694,640	$ 924,087	$ 770,553
Computer software	70,191	65,858	4,333
Furniture and office equipment	54,442	21,456	32,986
Leasehold improvements	26,133	11,085	15,048
Operating equipment	5,209	2,103	3,106
	$ 1,850,615	$1,024,589	$ 826,026

	October 31, 1996		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
Computer equipment	$ 1,579,828	$ 618,461	$ 961,367
Computer software	64,414	40,270	24,144
Furniture and office equipment	52,248	13,614	38,634
Leasehold improvements	25,404	6,191	19,213
Operating equipment	4,882	1,367	3,515
	$ 1,726,776	$ 679,903	$1,046,873

5. Technology rights

	1997	1996
Technology rights	$ 100,000	$ 100,000
Less: Accumulated amortization	60,000	40,000
	$ 40,000	$ 60,000

6. Loan receivable

The loan receivable represents advances to an officer of the Company pursuant to a Management Contract. The advances are non-interest bearing, unsecured and require repayment in annual increments of 10%, 20%, 30%, 20% and 20% commencing November 1, 1997 for the first advance of $15,000 and September 1, 1998 for the second advance of $21,250.

During the year, the officer exercised stock options to purchase 80,555 common shares at $0.45 per share (note 10[b]) and is entitled to stock options for an additional 34,000 common shares at $0.45 per share (note 10[g]), of which 25,400 vest over a five-year period beginning on October 31, 1996 and 8,600 vest upon achievement of certain performance criteria.

7. Bank indebtedness

Bank indebtedness consists of a demand revolving credit facility to a maximum of $275,000. It bears interest at the Hongkong Bank of Canada's ("Hongkong Bank") prime rate plus 0.5 per cent per annum. The demand loan was repaid in full January 15, 1998.

Security for both the demand revolving credit facility and the bank term loan (note 8) consists of a General Security Agreement and assignment of keyman life insurance policies. As additional security, certain shareholders have hypothecated, in favour of the Hongkong Bank, deposits or irrevocable letters of credit. In consideration for these hypothecations, the Company has agreed to pay on demand to those shareholders any monies paid by them to the Hongkong Bank under these security arrangements. These demand obligations bear interest at a rate of 9 per cent per annum payable on a quarterly basis in arrears.

8. Long-term debt

	1997	1996
Bank term loan *(note 8[a])*	**$ 112,489**	$ 162,493
Loan payable *(note 8[b])*	**123,519**	192,138
	236,008	354,631
Less: Portion due within one year	**214,054**	134,321
	$ 21,954	$ 220,310

(a) The bank term loan bears interest at the Hongkong Bank of Canada's prime rate plus one per cent per annum on the outstanding principal, and is paid monthly in arrears. The bank term loan is guaranteed by the federal government and is secured under the same terms as the demand revolving credit facility (note 7). The loan was repaid in full on January 15, 1998.

(b) The loan payable is repayable in monthly installments of $7,660, including interest at a Chartered Bank's prime rate plus 1.5 per cent per annum and matures no later than January 25, 1999. It is secured by a chattel mortgage over specified equipment.

Future minimum principal repayments are required as follows:

1998	$ 214,054
1999	21,954
	$ 236,008

9. Debentures

The $100,000 Series I debenture bears interest at five per cent per annum and is repayable in full (principal and interest) on June 30, 1998 (previously due June 30, 1997) unless converted into common shares before this time at the option of the debenture-holder, at $0.375 per common share. The debenture is secured by a General Security Agreement.

This debenture was issued pursuant to a Financial Advisory Services Agreement ("the Agreement") with Crossfield House Inc. ("Crossfield"), a company in which a director is an officer.

Crossfield was engaged as a financial management services agent with a mandate to assist the Company with a share offering to the public (note 17). Consideration for these services consisted of $3,000 per month plus an option to purchase 690,000 common shares at a price of $0.0001 per share (note 10[b]).

Certain rights and obligations under the agreement have been assigned to RichCrooks Enterprises Ltd., a company controlled by the spouse of a director and officer of the Company.

10. Share capital

(a) Authorized

Unlimited number of common shares, without par value

(b) Issued

	Number	Stated Value
Common shares		
Balance, October 31, 1995	3,029	$ 1,128,532
Issued for cash under a private offering	133	94,260
Issued on conversion of Class C Preferred shares - Series I and Series II	141	100,000
Issued as consideration for salaries, consulting and legal fees	77	54,372
Issued on exercise of stock options	63	6
Redemption of shares for cash	(20)	(14,040)
	3,423	1,363,130
Share issue costs	-	(8,100)
	3,423	1,355,030
Class C Preferred shares		
Balance, October 31, 1995		
Series I	650	65,000
Series II	350	35,000
	1,000	100,000
Conversion to common shares	(1,000)	(100,000)
	-	-
Balance, October 31, 1996		$ 1,355,030

	Number	Stated Value
Common shares		
Balance, October, 31, 1996	3,423	$ 1,355,030
Issued as consideration for salaries, consulting and legal fees	61	31,348
Issued on exercise of stock options *(note 6)*	33	15,000
Redemption of shares for cash	(153)	(6,681)
	3,364	1,394,697
Issued on 1000:1 common share stock split, net of rounding *(note 10[c])*	3,360,536	-
Issued pursuant to a Financial Advisory Services Agreement *(note 9)*	690,000	241,500
Issued as consideration for salary *(note10[e])*	3,850	-
Issued on conversion of Series II debentures *(note 10[f])*	920,880	345,330
Issued as consideration for consulting and legal fees	6,865	4,034
Issued on exercised stock options *(note 6)*	47,222	21,250
Balance, October 31, 1997	5,032,717	$ 2,006,811

(c) Pursuant to a shareholders' resolution approved on April 8, 1997, the Company split its common shares on a 1000:1 basis

(d) Pursuant to Articles of Amendment dated April 22, 1997, the Company amended its authorized share capital by redesignating Class A common shares as common shares and deleting a provision allowing for the issuance of Class B, C and D shares.

(e) Pursuant to a resolution approved by the Board of Directors, the Company revalued shares previously issued to an employee as consideration for salary. As a result, the employee was entitled to an increased number of shares for the salary forgone.

(f) Pursuant to the public offering (note 17), the Series II debentures, bearing interest at eight per cent, were converted to common shares on the basis of one common share per $0.375 of principal. On conversion, the shareholders also received one share purchase warrant for each dollar of principal converted, with two warrants required to purchase one common share at a price of $0.50 per share. The warrants expire March 18, 1999.

(g) As of October 31, 1997, 34,000 stock options granted to an officer of the Company are outstanding, with an exercise price per common share of $0.45 (note 6). The options expire October 31, 2001.

(h) Pursuant to a shareholders' resolution approved on July 23, 1996, the shareholders authorized a stock option plan for its directors, officers, consultants and key employees. The Board of Directors may designate certain individuals to participate in the plan. The number of common shares that may be granted as options under the plan shall not exceed 10 per cent of the issued and outstanding common shares, and no individual shall be granted an option exceeding five per cent of the issued and outstanding common shares. The option price per common share shall not be less than such price as may be acceptable to any stock exchange on which the common shares are listed. Options issued under the plan expire five years from the date they are granted. As of October 31, 1997, no options have been granted under the plan.

(i) Pursuant to an escrow agreement dated September 15, 1997, 1,799,808 common shares have been deposited in escrow, to be released as follows:

Release Date	
June 1998	10%
June 1999	30%
June 2000	30%
June 2001	30%

Additionally, 920,880 common shares issued on conversion of the Series II debentures (note 10[f]) have been pooled under a Pooling Agreement. This agreement calls for 20 per cent or 184,176 common shares to be held in escrow until January 7, 1998, and 80 per cent or 736,704 common shares to be held in escrow until December 8, 1998.

11. Prior period restatement

During the year ended October 31, 1996, the Company restated the classification of computer equipment with an original cost of $179,900 from a capital lease to an operating lease. This resulted in decreasing the originally stated loss in 1995 by $34,208, and decreasing the beginning deficit in 1996 by $34,208.

12. Commitments

Under the terms of its lease agreements for operating facilities and a fibre optic network agreement, the Company is obligated to make the following payments over the next three years:

	Operating Facilities	Fibre Optic Network
1998	$ 75,039	$ 69,000
1999	76,357	69,000
2000	57,267	20,125
	$ 208,663	$ 158,125

Under the fibre optic network agreement, the annual obligation can be reduced to $46,800 by the Company attracting new users to the network.

13. Tax benefits available

The financial statements do not reflect potential tax reductions available through the application of non-capital losses carried forward against future years' earnings otherwise subject to income taxes. These losses expire as follows:

2003	$ 152,687
2004	513,800
	$ 666,487

14. Related party transactions

The Company has entered into a number of transactions with directors, companies owned by directors or their families, and companies in which directors are officers. All transactions were carried out on terms similar to those used in transactions with arm's length parties.

The particulars of these transactions are as follows:

	1997	1996
Amounts due to directors, companies owned by directors and a company in which a director is an officer included in accounts payable	**$ 88,795**	$ 43,382
Interest owing to a company owned by a director and a company controlled by a director's spouse on the debentures	**$ 9,995**	$ -
Consulting fees included in deferred financing costs paid or owing to directors and companies owned by directors	**$ 65,000**	$ 59,600
Legal fees included in general and administrative expenses and deferred financing costs paid or owing to a director	**$ 22,602**	$ 34,230
Cost of computer equipment included in capital assets purchased from a director	**$ -**	$ 21,560
Amount due from an officer, included in loan receivable *(note 6)*	**$ 36,250**	$ -
Financial services fees included in deferred financing costs paid to a company owned by a director and a company controlled by a director's spouse	**$ 241,500**	$ -

15. Financial instruments

(a) Fair value

The fair value of the Company's term deposit, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and debentures are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

The fair value of the loan receivable and the long-term debt is estimated to approximate their carrying value. The fair values are estimated based on discounted cash flows using discount rates which represent borrowing rates available to the Company for debt of similar terms and maturity.

(b) Interest rate risk

The Company is exposed to interest rate cash flow risk to the extent that its long-term debt is at a floating rate of interest.

The Company is exposed to interest rate price risk to the extent that its debentures carry a fixed rate of interest. A significant change in market interest rates would impact the fair value of these obligations.

(c) Credit risk

The Company's maximum credit risk exposure is limited to the carrying value of its accounts receivable and loan receivable.

16. Net loss per share

The net loss per share statistics are based upon the weighted average number of common shares outstanding during the year, being 3,921,494 (1996 - 3,284,772). Exercise of outstanding debentures, warrants and stock options would not be materially dilutive.

17. Subsequent event

Public offering

Pursuant to an agency agreement with C. M. Oliver and Company Ltd. dated September 15, 1997, the Company's agent sold to the public by way of prospectus 4,396,200 Units at $0.50 per Unit for total proceeds of $2,198,100. Each Unit consists of one common share of the Company and one-half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of $0.65 per share until May 10, 1999. The offering closed on November 10, 1997, and subsequently the shares of the Company were listed on the Alberta Stock Exchange.

Under the terms of the agency agreement, the agent received a 10 per cent commission of $219,810 and an option to purchase 439,620 Units at $0.50 per Unit, expiring May 10, 1999.

The costs of arranging the public offering of $414,652 in addition to the agents' commission will be charged against share capital in the first quarter of 1998. At October 31, 1997, $399,037 has been recorded as deferred share issuance costs, of which $268,882 represents the issuance of common shares (note 10[b]).

Corporate Information

Board of Directors

Michael Binnion *(*) (**)*
President, Terrenex Acquisition Corporation
Bill Tempany *(**)*
Partner, Fintech Services Ltd.
Terry Barton *(*)*
Senior Manager - Private Client Services, Bank of Montreal
Graham Jones *(*)*
President, Industrial Market Research
Norm Pascal
President and Founder, NRI On-Line Inc.
Andy Crooks, *Chairman (**)*
Managing Director, NRI On-Line Inc.

** member of the Audit Committee*
*** member of the Compensation Committee*

Officers and Senior Management

Andy Crooks, *Managing Director*
Norm Pascal, *President and Founder*
Brett Kondruk, *Executive Vice President, Marketing and General Manager*
Mark Roberts, *Chief Financial Officer, Secretary and Treasurer*
Ralph Terner, *Vice President, Operations*

Head Office

NRI On-Line Inc.
Suite 160, 3015 - 5th Avenue N.E.
Calgary, Alberta T2A 6T8

Bankers

Canadian Imperial Bank of Commerce
Calgary, Alberta

Legal Counsel

McNiven Kelly
Calgary, Alberta

Auditors

Collins Barrow, Chartered Accountants
Calgary, Alberta

Registrar and Transfer Agent

Common Shares and Common Share Warrants
Montreal Trust Company of Canada
Calgary, Alberta

Investor Relations Information

Stock Listing Symbol: **NDA**
The Alberta Stock Exchange
For more information contact:
Mark Roberts, C.F.O.
(403) 248-7755

Glossary of Technical Terms (pertaining to seismic data and other large data sets)

"fibre optic cable" is glass-fibre cable which is capable of transmitting data at rates as high as two gigabits per second and commonly at rates of 155 megabits per second.

"fibre optic network" means a communication network linked together by fibre optic cable.

"geographical information systems" (GIS) means information systems which deal with geographic information and often means information systems that are map-based in design and interface.

"graphical user interface" (GUI) means the connection through which users are able to access and select data from the GIS. The GUI assists users in their access to and selection of data from the GIS through graphical representations in the form of icons, pictures, maps and other visual representations.

"high-density, high-speed tapes" means tape media with data densities in excess of the data densities of 9-track tapes and the read/write speeds range from three to 15 megabytes per second. This media includes the following types of tapes:

- Ampex 19mm D2 tapes;
- IBM Magstar (3590) tapes; and
- Digital Linear tapes ("DLT").

"9-track tapes" means a magnetic tape medium upon which data is stored on nine linear tracks. Tape sizes range from 600 feet to 3600 feet. The recording density of this medium ranges from 800 bytes per inch to 6250 bytes per inch. Read/write speeds for this medium commonly range from 0.1 to 1.2 megabytes per second.

"on-line" means the electronic transfer of data over fibre optic cable or other high speed communication links.

"remastering" means an activity which can include data recovery from degraded tapes, converting formats of seismic files and collating electronic information to associated paper, microfilm or microfiche files, typically done when transcribing or copying seismic data.

"seismic data" means geological information produced by sensors recording earth vibration artificially produced by various means.

"stiction" means a form of magnetic tape degradation resulting in the tapes becoming progressively unreadable.

"bit" means the basic unit of digital (binary) data.

"byte" means the equivalent of eight bits of data.

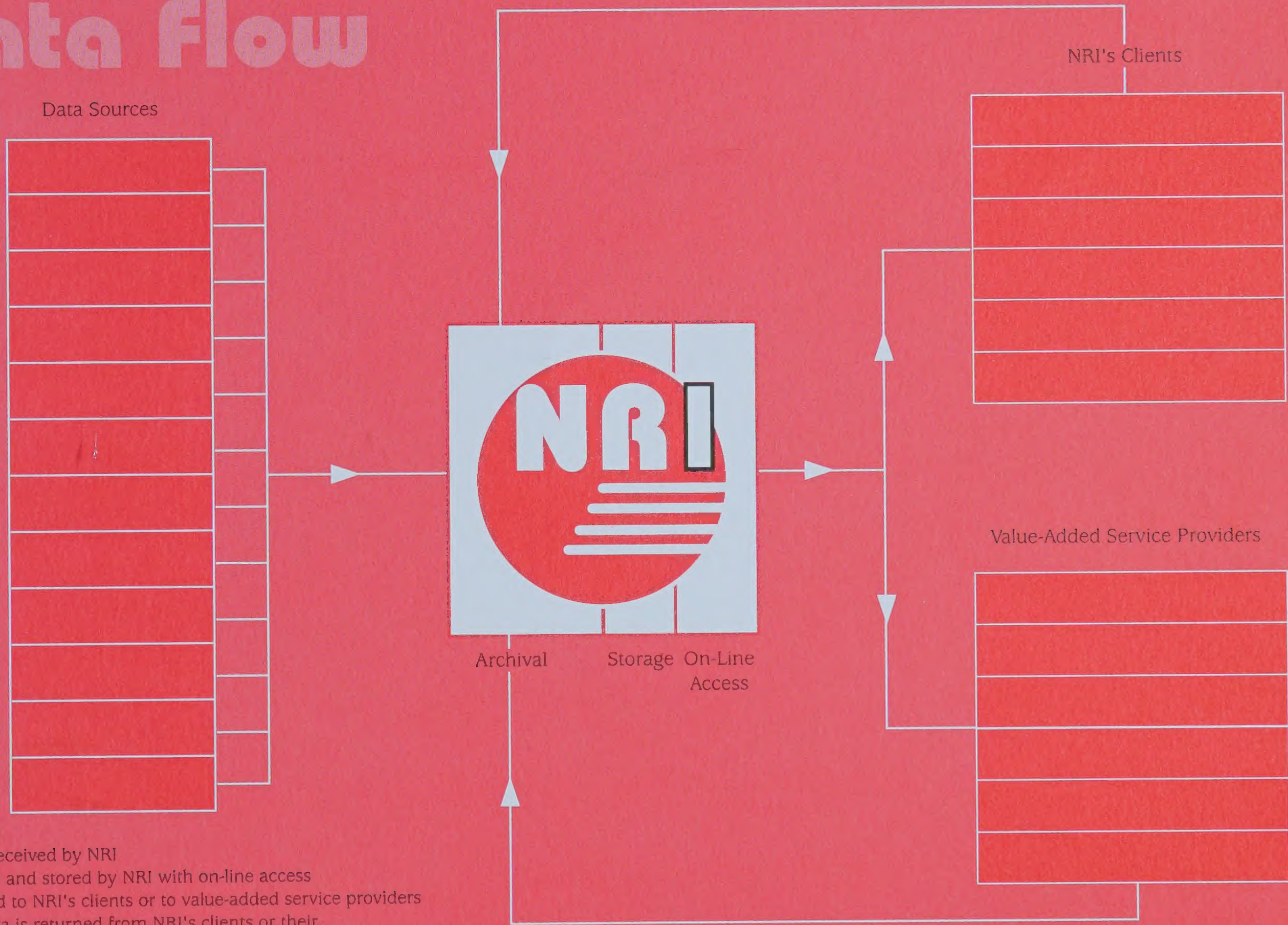
"kilobyte" means the equivalent of 1,024 bytes of data.

"megabyte" means the equivalent of 1,024 kilobytes of data, or approximately one million bytes.

"gigabyte" means the equivalent of 1,024 megabytes of data, or approximately one billion bytes.

"terrabyte" means the equivalent of 1,024 gigabytes of data, or approximately one trillion bytes.

Data Flow



- Source data is received by NRI
- Data is archived and stored by NRI with on-line access
- Data is delivered to NRI's clients or to value-added service providers
- Value-added data is returned from NRI's clients or their service providers for archival

NRI On-Line Inc.

Suite 160, Franklin Atrium (north)
3015 - 5th Avenue N.E.
Calgary, Alberta, Canada
T2A 6T8

Phone: (403) 248-7755
Fax: (403) 248-7563
E-mail: www.nri-online.com

DATA ARCHIVAL   HIGH-DENSITY DATA STORAGE   HIGH-SPEED ON-LINE DATA RETRIEVAL AND TRANSFER SERVICE   DATABASE MANAGEMENT SERVICE